MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2022/2023 (TERM ID 2210)

BBF2144 – BANKS, FINANCIAL MARKETS AND INSTITUTIONS

(All Sections/Groups)

10 FEBRUARY 2023
9.00 a.m. – 11.00 a.m.
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 3 pages with 4 Questions
2. Attempt all **FOUR** questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a) AMES bank finds that it can attract the following amounts of deposits with interest rates if it offers new depositors and those rolling over their maturing CD (certificate of deposits), which is more freely negotiable than the fixed deposits. The management expects to be able to invest the following deposits raised in loans yielding 4.5 percent.

Expected volume of new deposits	Interest rate offered to depositors
RM8M	3.3%
RM18M	3.8%
RM28M	4.2%

After excluding interest costs, how far should the bank go in raising its deposit rate to maximize total profit?

(10 marks)

(b) Suppose that Ms. Lee purchases a 90-day Treasury bill for RM9,850 that is worth RM10,000 when the Treasury bill matures. What is the security's annualised yield if she holds it to maturity?

(5 marks)

(c) Consider a commercial bond with a par value of RM2,000 that pays RM70 in coupons each year; and has 5 years remaining until maturity. Assume that the prevailing annualized yield on other bonds with similar characteristics is 5 percent. Calculate the appropriate market price of the bond.

(5 marks)

(d) The projected earnings per share for E&E Inc., is RM4.50. The average PE ratio for the industry composed of E&E's closest competitors is 20. After careful analysis, you decide that E&E is a little riskier than average, so you decide a PE ratio of 24 better reflects the market's perception of the firm. Estimate the current price of the firm's stock.

(5 marks)

(Total: 25 marks)

Continued ...

QUESTION 2

(a) RHB bank holds a bond in its investment portfolio whose duration is 3.7 years. Its current market price is $950. While market interest rates are currently at 7 percent for comparable quality securities, an increase to 10 percent is expected in the coming weeks. What changes (in percentage terms) will the bond's price experience if market interest rates change as anticipated?

(8 marks)

(b) Discuss the 'The Risk' and 'Possible Management Responses' if you expect that interest-sensitive assets are greater than interest-sensitive liabilities.

(5 marks)

(c) As a chief risk officer of KS bank, you develop some risk management strategies in order to overcome risk involved with uncertainties. Explain **FOUR (4)** strategies you plan to defend against risks faced by the bank.

(12 marks)

(Total: 25 marks)

QUESTION 3

(a) Discuss the relationship between OPR (Overnight Policy Rate), BR (Base Rate), DR (Depositors rate), and KLIBOR (Kuala Lumpur Interbank Offered Rate) by using Public Bank as a case study.

(5 marks)

(b) Consider a 1-year business loan with a single RM4000 payment at maturity (to be paid in maturity). The borrower receives only RM3750 (present value), or the total loan minus 12% discount rate interest. What is the effective annual percentage rate?

(5 marks)

(c) Peer-to-Peer (P2P) lending is an innovation of financial technology, which is also known as a digital lending platform. You are required to explain the following terms to both lenders and borrowers:

(i) Definition of P2P (Peer-to-Peer) lending.

(3 marks)

(ii) The procedures of P2P (Peer-to-Peer) lending platform in Malaysia.

(7 marks)

(d) Describe **THREE (3)** process to raise fund using equity crowdfunding (ECF).

(5 marks)

(Total: 25 marks)

Continued ...

QUESTION 4

(a) Discuss the following key terms:

(i) Open banking.

(5 marks)

(ii) Open banking adoption challenges.

(6 marks)

(b) Discuss the differences between public blockchain and private blockchain with a transaction between buyer and seller.
Show the transaction in diagrams.

(14 marks)

(Total: 25 marks)

End of Paper